VELCRO INDUSTRIES LIMITED
ANNUAL REPORT 1967

THE COVER DESIGN illustrates a product that inspired the development of a new industry. The lowly burdock burr—with its hundreds of tenacious hooks—led to the invention of VELCRO®—the revolutionary tape fastener.

VELCRO INDUSTRIES LIMITED
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Directors

Andre L. Burnier

H. Roy Crabtree

C. Humphrey Cripps

H. Weir Davis, Q.C.

Clark Hartwell

Ralph B. Hood

Raymond B. Lank

George M. Mackintosh

Eric S. Morse

Officers

Chairman of the Board
Ralph B. Hood

President
Clark Hartwell

Vice President
Eric S. Morse

Treasurer
Philip L. Belanger

Secretary
H. Weir Davis, Q.C.

Auditors
Touche, Ross, Bailey & Smart

Transfer Agent & Registrar
Montreal Trust Company

Head Office
400 Boulevard de Maisonneuve West
Montreal, Canada

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS:

We are pleased to report that the fiscal year ended September 30, 1967 has been another record year for the Company. New highs have been established in many of our activities resulting in increased sales and net profits. New products and types of Velcro® fasteners were finalized by our research and development efforts which will substantially benefit the Company in future years.

During the year, it was necessary to develop Velcro® closures to meet the new stringent flammability requirements specified by the National Aeronautics & Space Administration and the Federal Aviation Agency. Fully approved products have been created to fulfill the demand of both these agencies. Our new "Astro-Velcro" will be used by NASA, and "Hi-Air" by the aircraft industry. The rigid specifications imposed by the Government resulted in an involuntary delay by the aircraft manufacturers in their placement of orders for Velcro® fastener requirements pending approval of the new products.

Despite this delay and the additional expense in developing the new products, gross revenue from all sources increased over 1966 by 21.3% and net profits by 39.1% excluding non-recurring items. On a fully consolidated basis, net operating profit for fiscal year 1967 is equivalent to 72 cents per share as compared to 52 cents per share for 1966. In addition, income from the sale of shares held by a foreign subsidiary amounted to 20 cents per share.

Canadian Velcro Limited—Bramalea, Ontario.

On October 5, 1966 the Company's common shares were sub-divided on the basis of ten-for-one. During 1967, four quarterly dividends of 3 cents each were paid on the Company's common shares.

By November 15, 1966 the balance of the Company's preferred shares was converted into common shares. In February 1967, the Company's corporate name was officially changed from Velok Ltd. to Velcro Industries Limited.

The new plant under construction at Manchester, New Hampshire, is now expected to be completed in February 1968 and will increase our manufacturing capacity by approximately 150%. By early summer, all of the Manchester manufacturing, processing, packaging, and shipping facilities will be consolidated under one roof which will greatly increase our efficiency.

Our foreign operations have also continued to improve. Velcro® fasteners are now being manufactured under license in Japan, Austral-Asia and Brazil; in 1968, a new licensee will commence manufacturing operations in the Argentine territory and license agreements for other areas within our territories are under consideration.

Due to the above-mentioned temporary slow-down in orders from the aerospace industry which continued into the current fiscal year, and the expenses which will be incurred by moving into our new plant, earnings in the first half of this fiscal year may not match the excellent results reported for the first half of fiscal year 1967. However, we expect a strong second half and are confident that the year as a whole will again show record sales and earnings.

Our Company is still in the early stage of its growth potential, both in North America and abroad. Largely due to the intense activity of our research and development division which is continuing to investigate future possible uses, ranging from the sophisticated and technical to the common and everyday, new products will continue to be developed and a multitude of new applications will be established. Sales volume is expected to increase commensurate with the scheduled expansion of our manufacturing facilities as a result of the evergrowing broad acceptance of our products.

The tireless efforts by our loyal employees and officers have contributed much to the continued growth of the Company and is greatly appreciated.

SUBMITTED ON BEHALF OF THE BOARD OF DIRECTORS

Clark Hartwell

December 6, 1967

President

American Velcro, Inc.—Manchester, New Hampshire.

CONSOLIDATED BALANCE SH

(with comparati

ASSETS

	1967	1966
Current:		
Cash	$ 923,256	$ 569,727
Short term investments at cost which approximates market	1,297,148	2,338,139
Accounts receivable	2,007,784	1,697,618
Inventories, valued at cost which is less than net realizable value	1,177,699	982,787
Prepaid expenses	27,440	13,638
	5,433,327	5,601,909
Fixed—at cost (note 6):		
Land, buildings, machinery and equipment	1,893,250	1,728,872
Less: Accumulated depreciation	636,918	510,849
	1,256,332	1,218,023
Construction in progress	3,332,993	—
	4,589,325	1,218,023
Licenses and rights at cost	1,610,948	1,590,499
Less: Accumulated amortization	490,343	395,169
	1,120,605	1,195,330
Other:		
Investments at cost	210,512	233,785
Unamortized leasehold improvements	23,672	15,584
Deposits on machinery contracts	58,975	82,020
Special 5% refundable tax	28,441	7,650
	321,600	339,039
	$11,464,857	$8,354,301

Signed on behalf of the Board of Directors:

CLARK HARTWELL, *Director* RALPH B. HOOD, *Director*

The notes to consolidated financ

T AS OF SEPTEMBER 30, 1967

ures for 1966)

LIABILITIES

	1967	1966
Current:		
Accounts payable and accrued liabilities	$ 434,803	$ 373,442
Due on assets under construction	601,953	—
Dividend payable October 1	98,177	96,581
Income taxes (note 5)	875,674	754,734
	2,010,607	1,224,757
Notes payable, 4¼%, due 1969-72	800,000	800,000

SHAREHOLDERS' EQUITY

	1967	1966
Capital stock (notes 2, 3 and 4)		
Authorized—		
Preferred—250,000 cumulative redeemable convertible shares of $20 par value	5,000,000	
Common—10,000,000 shares of no par value		
Outstanding—		
Preferred—1,856 shares in 1966	—	37,120
Common—3,272,550 shares in 1967	4,544,535	4,351,480
	4,544,535	4,388,600
Retained earnings	4,109,715	1,940,944
	8,654,250	6,329,544
	$11,464,857	$8,354,301

ements are an integral part hereof.

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED SEPTEMBER 30, 1967

(with comparative figures for 1966)

	1967	1966
Gross revenue from operations	$7,465,850	$6,156,795
Costs and expenses except for the following items	2,451,110	2,145,276
	5,014,740	4,011,519
Selling expenses	722,591	581,831
Administration expenses	704,798	519,683
Royalties paid	126,061	110,651
Depreciation of fixed assets	158,593	125,856
Amortization of licenses	93,668	88,765
Interest	42,318	5,250
	1,848,029	1,432,036
	3,166,711	2,579,483
Other income		
Income from investments	139,474	39,158
Royalties earned	40,688	29,084
Other interest and miscellaneous income	68,394	71,407
	248,556	139,649
	3,415,267	2,719,132
Provision for taxes on income	1,068,467	1,032,436
Earnings for the year before extraordinary items	2,346,800	1,686,696
Profit on sale of investments	653,494	45,346
Net earnings for the year	3,000,294	1,732,042
Retained earnings—October 1	1,940,944	689,860
Add: Prior years' adjustments	74,853	—
	2,015,797	2,421,902
Deduct:		
Prior years' income taxes	140,145	—
Provision for income taxes (note 5)	375,000	—
Dividends	391,231	441,813
Financing expenses	—	39,145
	906,376	
	1,109,421	480,958
Retained earnings—September 30	$4,109,715	$1,940,944

The notes to consolidated financial statements are an integral part hereof.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 1967

1 The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Canadian and U.S. dollars have been treated as equal, at par of exchange, throughout these statements except where funds have actually been converted from one currency to the other, in which case the actual exchange realized has been recorded in the accounts. Certain re-allocations have been made to the figures for the 1966 year for purposes of comparison with the current year.

2 During the year the Company received Supplementary Letters Patent authorizing:

(a) the change of the Company's name from Velok Ltd. to Velcro Industries Limited,

(b) the reduction of capital by the cancellation of 135,000 shares of 5% cumulative, redeemable, convertible preferred stock of $20 par value each, previously issued and converted to common shares,

(c) a further reduction of capital by the cancellation of 115,000 authorized but unissued preferred shares, and

(d) the subdivision of the Company's common shares, both issued and unissued, on the basis of ten new shares for one old share, so that the authorized capital shall be 10,000,000 common shares of no par value.

3 On September 28, 1966 all preferred shares outstanding were called for redemption at $20.00 per share plus a premium of $1.00 per share, together with accrued dividends to November 15, 1966, the whole in accordance with the redemption provisions attaching to such shares. As at September 30, 1966 there remained 1,856 preferred shares outstanding, but by November 15, 1966, all such shares had been converted to common shares on the basis of the subdivision referred to in 2 (d) above and recorded in the accounts at $2.00 per share, and no preferred shares were required to be redeemed in accordance with the call for redemption dated September 28, 1966.

4 (a) In accordance with provisions of the 1965 Stock Option Plan, options were granted for the purchase of 7,500 common shares of the Company at $34.00 per share, exercisable on or before November 16, 1971.

(b) Because of the subdivision of the Company's shares, each holder of an option as at October 5, 1966 is now entitled to receive ten common shares for each one common share covered by his stock option outstanding at a price each of 1/10th of the price stated in the option.

(c) Option transactions during the year after the subdivision of common shares are summarized as follows:

	Outstanding at October 1966	Granted during year	Exercised during year	Outstanding at September 30, 1967
at $3.70 per share	50,000	—	35,050	14,950
at $10.50 per share	72,500	—	2,500	70,000
at $34.00 per share	—	7,500	—	7,500

Options on shares at $3.70 per share are exercisable on or before January 28, 1970, those at $10.50 per share on or before January 18, 1971, and those at $34.00 per share on or before November 16, 1971.

5 Canadian income taxes have been assessed up to the year ended September 30, 1965 and issues raised have been settled with the tax authorities and taxes paid as required.

U.S. income taxes have been assessed up to September 30, 1966 and all issues raised and taxes thereon provided for except certain deficiencies relating to royalty payments for the years ended September 30, 1963 through 1966 which the Company is protesting. Discussions are still in progress and no solution as yet has been reached on these matters. Management believes the contention of the U.S. tax authorities to be erroneous but on the advice of counsel have reserved $375,000 to cover the contingent tax liability which may arise therefrom.

As a result of the contention of the U.S. tax authorities, it has been deemed advisable for the parent company to lodge an objection with the Canadian tax authorities relating to such contentions in order to protect its position with regard to double taxation as provided for in the Canadian-U.S. Reciprocal Tax Convention.

6 Fixed assets are valued at cost and comprise the following:

	1967		1966	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Buildings and equipment	$ 320,401	$ 42,917	$ 472,961	$ 76,361
Machinery and equipment	1,307,809	551,820	1,011,802	400,684
Office furniture and equipment	102,889	42,181	81,958	33,804
Land	162,151	—	162,151	—
	$1,893,250	$636,918	$1,728,872	$510,849

The Company's policy is to charge depreciation in the accounts at the maximum normal rates allowed by the taxation authorities of the country in which the assets are situated.

7 Commitments:

As at September 30, 1967 the Company and its subsidiaries were committed under purchase orders and contracts for the following:

(a) $497,000 in connection with the construction of manufacturing facilities and offices;

(b) $602,198 for the purchase of machinery and equipment of which $58,975 has been deposited with the manufacturers and,

(c) $45,000 for the remodelling of office space.

8 The total remuneration paid to directors as officers of the Company and its subsidiaries for the year amounted to $109,683 (1966—$101,732). No amounts were paid to directors as such during 1967 or 1966.

AUDITORS' REPORT

To the Shareholders,
Velcro Industries Limited:

We have examined the consolidated balance sheet of Velcro Industries Limited and Subsidiary Companies as at September 30, 1967 and the related statement of consolidated earnings and retained earnings for the year then ended. Our examination of the financial statements of the company and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. After making such enquiries and reviews as we considered necessary, we have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the consolidated financial position of the companies as at September 30, 1967 and the results of their operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

Montreal, Que.
November 13, 1967.